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# Legislative Audit Division

State of Montana

Report to the Legislature

February 1996

# Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1995

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# Department of Family Services

As of July 1, 1995, this department was merged into the Department of Public Health and Human Services.

This report contains 26 recommendations to the Department of Public Health and Human Services concerning operation and administration of programs administered by the Department of Family Services during the two year audit period. Issues addressed in the report include:

- Development of cost allocation plans.
- Errors in accounting records.
- Noncompliance with appropriation laws.
- Ineffective cash management procedures.
- Foster care program compliance.
- Management of the accounting function.

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Legislative Audit Division
Scott A. Seacat, Legislative Auditor

February 1996

The Legislative Audit Committee
of the Montana State Legislature:

This report is the result of our financial-compliance audit of the Department of Family Services for the two fiscal years ended June 30, 1995. Included in this report are 26 recommendations to the Department of Public Health and Human Services to improve fiscal operations associated with family services programs.

The written responses to the audit recommendations are included at the end of the audit report. We thank the director and department staff for their assistance and cooperation.

Respectfully submitted,

Scott A. Seacat
Legislative Auditor

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# Legislative Audit Division

**Financial-Compliance Audit**
**For the Two Fiscal Years Ended June 30, 1995**

# Department of Family Services

**As of July 1, 1995, this department was merged into the Department of Public Health and Human Services**

Members of the audit staff involved in this audit were Pete Brustkern, John Fine, Tori Hunthausen, Victoria Murphy, Lorry Parriman, and Vickie Rauser.

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## Appointed and Administrative Officials

| | |
|---|---|
| **Department of Public Health and Human Services** | Peter Blouke, Director |
| | Michael Billings, Administrator, Operations and Technology Division |
| | Hank Hudson, *Administrator, Family Services Division* |

* Served as director of the Department of Family Services until June 30, 1995.

## Summary of Recommendations

The listing below serves as a means of summarizing the recommendations contained in the report, the department's response thereto, and a reference to the supporting comments.


Recommendation #1

We recommend PHHS establish procedures to ensure timely request of federal funds as allowed by the Cash Management Improvement Act. . . . . 9

Agency Response: Concur. See page B-4.

Recommendation #2

We recommend PHHS implement a cost allocation plan with consistent application of federal cost principles. . . . . 12

Agency Response: Concur. See page B-4.

Recommendation #3

We recommend PHHS:

A. Allocate the salary costs of the Helena Housing Authority social worker to its federal assistance programs. . . . . 13

Agency Response: Concur. See page B-4.

B. Recover administrative costs from Helena Housing Authority as provided in the agreement. . . . . 13

Agency Response: Concur. See page B-5.

Recommendation #4

We recommend PHHS:

A. Develop procedures to document valid charges to restricted appropriations. . . . . 14

Agency Response: Concur. See page B-5.

B. Revert $40,571 to the General Fund. . . . . 14

Agency Response: Concur. See page B-5.

Recommendation #5

We recommend PHHS:

A. Review transaction support to ensure expenditures are allowable to the appropriations charged. . . . . 16

Agency Response: Concur. See page B-5.

B. Revert $234,965 to the General Fund. . . . . 16

Agency Response: Concur. See page B-6.

Recommendation #6 — We recommend PHHS:

A. Charge family services expenditures to the proper fund in compliance with state law. . . . . 17

Agency Response: Concur. See page B-6.

B. Seek supplemental appropriation authority when such authority appears necessary to carry out the department's legally mandated mission. . . . 17

Agency Response: Concur. See page B-6.

C. Reimburse the federal Special Revenue Fund $1.8 million. 17

Agency Response: Partially concur. See page B-6.

Recommendation #7 — We recommend PHHS:

A. Implement procedures to facilitate projecting and tracking expenditures. . . . . 18

Agency Response: Concur. See page B-7.

B. Transfer $24,921 from the federal Special Revenue Fund to the General Fund. . . . . 18

Agency Response: Concur. See page B-7.

Recommendation #8 — We recommend PHHS limit variances from approved operating budgets as required by law. . . . . 19

Agency Response: Concur. See page B-7.

Recommendation #9 — We recommend PHHS:

A. Ensure the federal Special Revenue Fund account is reconciled and balances are correct at the end of the fiscal year. . . . . 21

Agency Response: Concur. See page B-7.

B. Review expenditure and revenue accrual procedures for consistency and accuracy. . . . . 21

Agency Response: Concur. See page B-8.

Recommendation #10

We recommend PHHS:

A. Transfer $390,708 from the Special Revenue Fund to the General Fund. . . . . 23

Agency Response: Concur. See page B-8.

B. Record expenditures and revenue for third party foster care payments in accordance with state law and policy. . . . . 23

Agency Response: Concur. See page B-8.

Recommendation #11

We recommend PHHS:

A. Retain support for expenditure transactions as required by state law. . . . . 24

Agency Response: Concur. See page B-8.

B. Transfer $96,257 to the General Fund from the federal Special Revenue Fund. . . . . 24

Agency Response: Concur. See page B-8.

Recommendation #12

We recommend PHHS ensure:

A. Federal assistance is matched with state funds as required, and . . . . . 25

Agency Response: Concur. See page B-9.

B. Expenditures are charged to the correct federal program. . . . . 25

Agency Response: Concur. See page B-9.

Recommendation #13

We recommend PHHS facilitate communication between accounting and data processing employees necessary to properly record equipment purchases. . . . . 26

Agency Response: Concur. See page B-9.

## Summary of Recommendations


Recommendation #14

We recommend PHHS:

A. Record bad debt expense and an allowance for doubtful accounts on the state's accounting records. . . . . 27

Agency Response: Concur. See page B-9.

B. Initiate collection of unpaid foster care charges to counties through offset of other payments by the Department of Administration. . . . . 27

Agency Response: Concur. See page B-9.

Recommendation #15

We recommend PHHS improve consistency and accuracy of federal reporting for family services programs. . . . . 29

Agency Response: Concur. See page B-10.

Recommendation #16

We recommend PHHS implement a control system to ensure Title IV-E foster care payments are made on behalf of eligible clients in accordance with federal regulations. . . . . 32

Agency Response: Concur. See page B-10.

Recommendation #17

We recommend PHHS establish procedures to ensure the funding source charged is correct based on a child's eligibility. . . . . 33

Agency Response: Concur. See page B-11.

Recommendation #18

We recommend PHHS:

A. Record foster care adjustments on SBAS. . . . . 34

Agency Response: Concur. See page B-11.

B. Recover $565,682 of federal funds for eligible foster care services. . . . . 34

Agency Response: Concur. See page B-11.

Recommendation #19

We recommend PHHS reconcile SBAS and its foster care database on a timely basis to ensure financial information on the state's accounting records is accurate and complete. . . . . 35

Agency Response: Concur. See page B-11.

Recommendation #20 — We recommend PHHS record warrant cancellations and reissuances on the foster care database. . . . . 36

Agency Response: Concur. See page B-12.

Recommendation #21 — We recommend PHHS establish procedures to prevent payment to residential treatment facilities by both medicaid and foster care for the same services. . . . . 37

Agency Response: Concur. See page B-12.

Recommendation #22 — We recommend PHHS:

A. Implement procedures to pay foster care providers in accordance with state law. . . . . 38

Agency Response: Concur. See page B-12.

B. Establish procedures to track foster care charges in dispute. . . . . 38

Agency Response: Concur. See page B-12.

Recommendation #23 — We recommend PHHS transfer foster care payments to the General Fund when they are removed from the childrens' accounts. . . . . 39

Agency Response: Concur. See page B-13.

Recommendation #24 — We recommend PHHS implement an effective reconciliation of its trust account subsystem to SBAS. . . . . 40

Agency Response: Concur. See page B-13.

Recommendation #25 — We recommend PHHS transfer abandoned property to the Department of Revenue in compliance with state law. . . . . 41

Agency Response: Concur. See page B-13.

Recommendation #26 — We recommend PHHS implement effective procedures to notify the county attorney of known or suspected cases of neglect reported to the department. . . . . 42

Agency Response: Concur. See page B-13.

# Introduction

## Introduction

We performed a financial-compliance audit of the Department of Family Services (department) for the two fiscal years ended June 30, 1995. The objectives of the audit were to:

1. Recommend improvements in the management and internal controls of the department.
2. Determine if the department complied with applicable state and federal laws and regulations.
3. Determine if the department implemented prior audit recommendations.
4. Determine if the department's financial schedules fairly present the results of its operations for the audit period.

This report contains 26 recommendations. These recommendations address areas where the department's financial management, accounting procedures, and compliance with laws and regulations can be improved. In accordance with section 5-13-307, MCA, we analyzed and disclosed the cost, if significant, of implementing the recommendations in this report.

Areas of concern deemed not to have a significant effect on the successful operations of the department are not specifically included in this report, but have been discussed with the former director and program management.

## Reorganization

Chapter 546, 1995 Laws of Montana, reorganized the state's health and human services agencies effective July 1, 1995. The bill consolidated all or portions of the Departments of Social and Rehabilitation Services, Family Services, Health and Environmental Sciences, and Corrections and Human Services into one agency, the Department of Public Health and Human Services (PHHS). The Regional Administration and Program Management Programs of the Department of Family Services combined to form the Child and Family Services Division of PHHS. The Juvenile Corrections Program of the Department of Family Services was transferred to the Department of Corrections. Personnel of the Management Support Services Division were merged into divisions of PHHS and

Corrections. To simplify referencing in this report, "the department" refers to the Department of Family Services and "PHHS" refers to the Department of Public Health and Human Services. The recommendations in this report are directed to PHHS.

## Background for Two Fiscal Years Ended June 30, 1995

During the audit period, the department provided protective services to ensure the health, welfare, and safety of children and adults who are in danger of abuse, neglect or exploitation within the community. It provided for the care, protection, and mental and physical development of youth in need of supervision or delinquent youth who were referred or committed to the department. In addition, it provided support services to enable senior citizens to maintain their independence.

Department services were aimed at strengthening family unity and providing an appropriate living environment for individuals. The department operated four programs: management support, regional administration, juvenile corrections, and program management. The number of full-time equivalent employees, by program, is shown in the following table.

Table 1

Full-time Equivalent Employees

| Program | Fiscal Year 1993-94 | Fiscal Year 1994-95 |
|---|---|---|
| Management Support | 33 | 33 |
| Regional Administration | 348 | 319 |
| Juvenile Corrections | 202 | 202 |
| Program Management | 30 | 30 |
| Total Department | 613 | 584 |

Source: Department of Family Services final approved operating plan.

The management support program provided the overall management and policy development for the department, as well as administrative, data processing, and fiscal support. The program

included the director's office, administration, state aging, and training functions.

The regional administration program provided protective services to ensure the health, welfare, and safety of children, the developmentally disabled, and the elderly who are in danger of abuse, neglect, or exploitation. Each of the department's five regions provided the administrative, management, and supervisory functions necessary to ensure that regional program responsibilities were met.

The juvenile corrections program provided diagnosis, care, education, and rehabilitation for juveniles between the ages of 10 and 21 years who have been committed by the courts. The program included Mountain View School (MVS), Pine Hills School (PHS), youth evaluation program, and aftercare program for youth released from correctional facilities.

The program management program provided the overall administrative and policy development services for the direct service programs of the department. The program provided a variety of social services to children and adults. Services to children included foster care, protective daycare, and adoption referral and counseling. Services to adults included spouse abuse counseling, services to unmarried partners, health and nutrition programs, and work incentive programs. The program also included administration of federal supplemental social security income payments to eligible recipients.

# Prior Audit Recommendations

**Prior Audit Recommendations**

Our financial-compliance audit of the department for the two fiscal years ended June 30, 1993 contained 20 recommendations. We determined the department implemented six, partially implemented five, and did not implement nine of the recommendations.

In its response to our prior audit the department concurred with 19 recommendations, and conditionally concurred with the remaining recommendation. The recommendation on teacher's contracts, with which the department conditionally concurred, was discussed with Department of Corrections management and is not discussed further in this report. The contract contained language on leave benefits which contradicts state law. Although the benefits have not been claimed or paid, these contract provisions are not valid and should not be in the contracts. The department attempted to remove the contradictory language from the contract, but the teachers would not negotiate the language out of the contract.

The recommendation related to assignment of an interagency team to ensure implementation of an effective management control system was not implemented. The governor appointed the team, but it did not develop a control system or monitor procedures. Instead, the team met once six months into fiscal year 1994-95 and considered procedures suggested by the department. The advice and oversight anticipated in the recommendation did not occur.

Report findings discussed in this report which relate to recommendations not implemented are reconciliation of Special Revenue Fund fund balance (page 19), recording of transactions in accordance with state law and policy (page 22), charging foster care services based on client eligibility (page 30), reconciliation of the foster care database to the Statewide Budgeting and Accounting System (page 34), recovery of foster care overpayments (page 36), and notification to county attorneys of cases of abuse and neglect (page 41). The issue regarding mandatory visits to day care centers is discussed in our performance audit report, Child Care Certification and Monitoring (audit #95P-03).

Report findings discussed in this report which were partially implemented relate to charging the proper funding source (page

24), monitoring appropriation activity to ensure compliance with state law (page 13), recording fixed assets (page 25), and recovery of allocated costs (page 9). Issues dealing with cash accounts and accounting records at juvenile corrections facilities have been discussed with department management and the Department of Corrections.

As documented in this report, we found fiscal confusion, transactions which did not comply with law, and cash management actions which adversely impacted the state's General Fund. Report findings pertaining to charging the proper funding source, Special Revenue Fund fund balance, recording transactions in accordance with state law and policy, and monitoring appropriation activity have also appeared in the past three audits of the department. Qualified opinions on department financial schedules in two previous audits and an adverse opinion in the last audit indicate persistence of problems in managing the accounting function of the department. PHHS has the opportunity and responsibility to implement new financial management systems associated with family services programs to meet the requirements of the state and federal governments.

# Findings and Recommendations

## Impact Summary of Reported Issues

The issues in this report discuss situations involving questioned costs to federal programs and impact on the state's General Fund. A questioned cost may result in payment to the federal government for amounts expended from federal funds which were not allowable under federal laws and regulations. General Fund impacts include instances where allowable expenditures of federal programs were charged to the General Fund, slow billing procedures cost the state interest, abandoned property could be claimed, and interest may be due on slow payment of claims. Table 2 summarizes federal questioned costs documented in this report. Table 3, Summary of General Fund Impacts, lists findings where department procedures affect General Fund balance, both current and future.

Table 2

Summary of Questioned Costs

| CFDA# | Federal Program | Amount | Page |
|---|---|---|---|
| 93.658 | Title IV-E | $ 58,046 | 10 |
| 93.778 | Title XIX | 218 | 11 |
| 93.560 | Title IV-A | 1,092 | 11 |
| 93.658 | Title IV-E | 28,823 | 24 |
| 93.575 | Child Care Block Grant | 36,199 | 24 |
| 93.658 | Title IV-E | 12,120 | 28 |
| 93.778 | Title XIX | 457 | 28 |
| 93.658 | Title IV-E | 7,211 | 31 |
| 93.658 | Title IV-E | 3,964 | 31 |
| 93.658 | Title IV-E | 165,497 | 34 |
| 93.560 | Title IV-A | 31,671 | 34 |
| Total | | $345,298 | |

Source: Compiled by the Legislative Audit Division.

Table 3

Summary of General Fund Impacts

| Issue | Impact | Potential Recovery | Page |
|---|---|---|---|
| Title XIX underrecovery | $ 23,728 | $ 23,728 | 10 |
| Unallocated 1994-95 costs | 11,202 | 11,202 | 11 |
| Social Worker Salary Costs | 172,000 | 172,000 | 12 |
| Social Worker Expenses | 2,971 | 2,971 | 12 |
| Overexpenditure of 1993-94 authority | 40,571 | 40,571 | 13 |
| Overexpenditure of Appropriations | 234,965 | | 15 |
| Invalid Fund Transfer | 24,921 | 24,921 | 17 |
| Third Party Expenditures Charged 1993-94 | 390,708 | 390,708 | 23 |
| County Participation | 96,257 | 96,257 | 24 |
| Receivables Collections | 88,967 | 88,967 | 26 |
| Unbilled IV-E costs | 73,241 | 73,241 | 28 |
| Title IV-A underrecovery 1993-94 | 8,305 | 8,305 | 28 |
| Title IV-E underrecovery | 1,226 | 1,226 | 28 |
| Potential interest on late payments | (4,604) | | 37 |
| Unrecovered duplicate payment | 3,918 | 3,918 | 38 |
| Foster Care payments lag | 9,972 | | 39 |
| Abandoned property | 3,322 | 3,322 | 41 |
| Total | $1,181,670 | $941,337 | |
| Title IV-E interest on cash draws | $ 8,750 | annually | 8 |
| Title IV-B interest on cash draws | 4,950 | annually | 8 |
| Titles IV-A, XIX interest on cash draws | 38,736 | annually | 8 |
| Funding for social worker | 21,500 | annually | 12 |

Source: Compiled by the Legislative Audit Division.

## Managing Federal Cash Reimbursements

State law requires state agencies to expend non-General Fund money before expending General Fund money whenever possible. Federal regulations require limiting the draw of federal funds to the actual time of disbursement of those funds. Effective cash management procedures draw federal funds as close to the time of expenditure as possible so as to satisfy both state and federal criteria. We reviewed the department's process of requesting federal funds and determined the requests should be more timely to ensure proper cash flow. The following are examples of department procedures regarding the timeliness of requests for federal funds.

-- During the audit period, department procedure was to request Foster Care Title IV-E funds, Catalog of Federal Domestic Assistance (CFDA) #93.658, on a monthly basis. However, foster care benefits are paid weekly. The Cash Management

Improvement Act (CMIA) agreement between the state and the U.S. Department of Treasury requires the department to request Title IV-E funds in accordance with the clearance pattern specified in the agreement. This pattern requires foster care funds be drawn on a weekly basis with direct and indirect administrative costs drawn biweekly. Monthly Title IV-E draws approximate $750,000. As a result of drawing funds monthly rather than weekly, the General Fund lost interest earnings of an estimated $8,750 each fiscal year. Department personnel were not aware of their responsibilities under the CMIA agreement.

-- The department receives a quarterly grant award for its Child Welfare Services (CWS) Title IV-B funds (CFDA #93.645). The department draws one-third of the award each month. However, the CWS program expenditures indicate the department could draw the entire quarterly award at the end of the first month, based on amounts disbursed. The yearly Title IV-B allotment to the department caps reimbursement at $1.2 million, and the expenditures qualifying for the CWS program approximate $3.5 million. By not drawing funds based on amounts disbursed, the General Fund lost an estimated $4,950 of interest earnings each fiscal year.

-- The department bills for its Medicaid Title XIX (CFDA #93.778) and Emergency Foster Care Title IV-A (CFDA #93.560) reimbursement based on quarterly expenditures. A June 29, 1995 cash analysis, created by department personnel, indicated the department had not received its Title XIX and IV-A reimbursement in excess of $832,000, for the quarter ended March 31, 1995. In addition, reimbursement for expenditures for the quarter ended June 30, 1995, in excess of $707,000, was not requested until mid-August. A department official said neither reimbursement was received until early November 1995. Department procedure to wait and request reimbursement based on quarterly expenditures cost the General Fund an estimated $38,736 in lost interest earnings each fiscal year of the audit period. Department personnel indicate that since these funds pass through the Department of Social and Rehabilitation Services, there is a lag time of about three months before the department receives the cash. However based on our review, significant time elapses before the department requests the funds.

We calculated that the procedures noted above cost the state General Fund $104,872 during the biennium. Slow billing of federal program costs also caused the department to obtain significant inter-entity loans from the General Fund. In June 1995, the

department requested a loan of $1,650,000 to meet its cash flow needs. The department should improve the timeliness of its requests for federal reimbursement to reduce interest lost to the General Fund and operating loans requested of the General Fund. Under the CMIA agreement, this can be done by documenting a payout pattern for grant funds and requesting federal reimbursements according to the payment pattern.

**Recommendation #1**

**We recommend PHHS establish procedures to ensure timely request of federal funds as allowed by the Cash Management Improvement Act.**

## Cost Distribution

Costs incurred in connection with programs sponsored by the federal government are allowable charges against federal grants and contracts. Cost allocation plans are a means by which such costs are identified, accumulated and distributed to grants and contracts. These costs may include direct program costs as well as indirect costs not readily identified with one grant. During the current audit, we found the department applied cost allocation procedures inconsistently. We noted the following concerns with distribution of costs to various state and federal programs.

### Inconsistent Use of Plan

The department did not charge all federal programs based on its cost allocation plan in fiscal year 1993-94. The department billed the federal government for costs allocated to Foster Care Title IV-E (CFDA #93.658) and Child Welfare Services Title IV-B (CFDA #93.645), using the cost allocation plan. The department's other federal programs were billed for direct charges identified on the statewide budgeting and accounting system (SBAS).

When the department does not bill a program from the cost allocation plan, the department cannot verify that the amount billed includes all program costs. For example, the cost allocation plan for fiscal year 1993-94 identified $334,757 in Title XIX (CFDA

#93.778) costs, but the department only billed $311,029, the direct costs identified on SBAS. As a result, the department did not recover $23,728 in Title XIX funds. These costs can and should be recovered.

Department personnel indicated that the cost allocation plan was never intended to be used to bill all federal programs. It was intended to be used to bill just Titles IV-E and IV-A. However, federal guidance states that directly billing select programs and allocating residual amounts through cost allocation to the remaining programs is not acceptable and results in inequitable costing. Inconsistent application of the cost plan leaves the department no way of ensuring all valid costs are recovered. In addition, limits on indirect cost recoveries for some programs may result in excess recoveries from other programs.

**Inconsistent Costing Practices**

Federal regulations state each item of cost should be treated consistently either as a direct or an indirect charge. Federal guidelines also state that inconsistent treatment results in disallowed claims. During fiscal year 1993-94, the department applied an indirect cost rate to determine the amount to claim for federal reimbursement. Included in this rate, in accordance with state policy, is a portion of the statewide cost allocation plan (SWCAP). In addition, the department charged $58,406 of SWCAP directly to the Title IV-E Foster Care (CFDA #93.658) program.

The department treated SWCAP charges as both an indirect cost, by inclusion in the rate, and as a direct charge to Title IV-E. Therefore, we question the direct charge of $58,046 to the Foster Care Title IV-E program in fiscal year 1993-94. We discussed this issue in the prior audit report. The department recognized the inconsistency and did not directly charge SWCAP costs to any program in fiscal year 1994-95.

**Duplicate Billings**

For the first 18 months of the audit period, the department allocated foster care travel and administrative expenses to Titles XIX (CFDA #93.778) and IV-A (CFDA #93.560) grants. The department also included these same expenditures in its Title IV-E administration costs. Office of Management and Budget (OMB) Circular A-87 defines an allowable charge as one from which the grant receives a direct benefit. The foster care costs were unnecessary and unreasonable charges to the Titles XIX and IV-A grants since the medicaid and daycare programs did not benefit from the expense. Therefore, we question charges totaling $218 and $1,092, respectively, in fiscal year 1993-94. Department personnel agreed that they had mistakenly charged federal sources twice for the same foster care expenditures. The charges were corrected in fiscal year 1994-95.

**Errors in Allocation Base**

When allocating fiscal year 1994-95 expenditures, the department did not allocate $11,202 in allowable costs to federal programs. These administrative costs should have been assigned to the administrative cost pool before the pool was allocated to the federal programs.

**Summary**

The four situations discussed in these sections resulted from inconsistent application of federal cost principles. Department accounting personnel were not aware of the basic federal requirement to consistently apply allocation procedures and cost principles. Delays in submitting plans and untimely response to subsequent federal questions also contributed to errors in both fiscal years. The Department of Public Health and Human Services (PHHS) will submit a new cost allocation plan for PHHS which will include the federal programs of the Family Services Program Division. The PHHS plan will require federal approval and consistent application to all PHHS programs.

**Recommendation #2**

**We recommend PHHS implement a cost allocation plan with consistent application of federal cost principles.**

**Helena Housing Authority Social Worker**

The department employs an adult protective services social worker who is assigned to the Helena Housing Authority (HHA). The HHA social worker is considered a regular departmental social worker with an assigned recipient caseload. A Memorandum of Agreement signed by the Department of Social and Rehabilitation Services (SRS) and HHA in December 1972, stipulates that the salary is to be funded at a ratio of 75 percent SRS funds and 25 percent HHA funds. A former HHA employee said the 75 percent SRS share was mostly federal funds at the time the agreement was signed. During our review of the HHA social worker activity, we identified the following concerns.

We determined the department is funding the HHA social worker position with General Fund moneys, and billing HHA for reimbursement of 25 percent of the position's salary. The social worker position participates in federal programs just as other department social worker positions do. If all the HHA position costs had been included in the department's allocation to federal programs, and the HHA reimbursement had been considered match in relation to the federal participation, we estimate General Fund savings of approximately $21,500 to $23,000 a year would have been attained. PHHS should seek recovery of federal funds for the past eight fiscal years, a potential reimbursement of $172,000 for the state General Fund.

In addition, the department has never recovered administrative costs from HHA. In fiscal years 1993-94 and 1994-95, the General Fund paid $1,767 and $1,204, respectively, in administrative costs related to the HHA social worker position. Under the written agreement, HHA should pay all administrative

costs other than salary. Personnel were not aware of this provision in the agreement.

**Recommendation #3**

**We recommend PHHS:**

**A. Allocate the salary costs of the Helena Housing Authority social worker to its federal assistance programs.**

**B. Recover administrative costs from Helena Housing Authority as provided in the agreement.**

## Appropriations

The Montana Legislature exercises control over government operations through the appropriation process. The general appropriation law appropriates money for expenditure in specific funds by specific programs of an agency as identified in its budget. The following five sections discuss noncompliance with statute and appropriation laws by the department.

### Restricted Appropriation

Chapter 623, Laws of 1993, appropriated $700,000 in General Fund money for education costs of children receiving medicaid eligible treatment services. The department charged $205,188 more to the restricted General Fund appropriation than expenditures qualifying for the restriction in fiscal year 1993-94. Charges to the appropriation were not supported by bills for education costs. As a result, the department overspent General Fund authority in fiscal year 1993-94 by $40,571. Table 4 summarizes the impact of improperly charging the restricted appropriation.

Table 4

**Impact of Invalid Charges**
**Education Treatment Appropriations**

| | |
|---|---|
| Reported Expenditures Education Treatment | $ 699,999 |
| Less: Education Treatment Expenditures per Support | (494,811) |
| Expenditures Charged Not Qualifying with Restriction | 205,188 |
| Less: Unrestricted General Fund Appropriations at fiscal year-end 1993-94 | (164,617) |
| Overexpenditure of General Fund appropriation | $ 40,571 |

**Source: Compiled by the Legislative Audit Division**

A department employee said the expenditure from the restricted appropriation was supported by a Medicaid expenditure spreadsheet. However, the spreadsheet did not identify costs of educational services. The employee said the restricted appropriation was used because the Medicaid match appropriation was spent. The department should establish procedures to clearly document compliance with appropriation restrictions.

**Recommendation #4**

**We recommend PHHS:**

**A. Develop procedures to document valid charges to restricted appropriations.**

**B. Revert $40,571 to the General Fund.**

**Use of Prior Year Appropriations**

Section 17-7-302(2), MCA, states that an appropriation not encumbered by a valid obligation reverts to the fund from which it was originally appropriated. Section 17-7-304(1), MCA, limits the use of appropriation authority to the year for which the appropriation was made. Section 17-8-103, MCA, prohibits expenditure in excess of legislative appropriations and section 17-8-104, MCA, provides civil penalties for overexpending appropriation authority, including liability for repayment and removal from office. The following instances describe transactions recorded by the department which did not apply to the year for which appropriations were made.

As part of an adjustment to recover additional federal funds for services provided to clients in years prior to fiscal year 1993-94, the department reduced expenditures of fiscal year 1993-94 General Fund appropriations. Since state law limits the use of appropriation authority to the year for which the appropriation was made, these transactions resulted in an illegal increase in General Fund appropriation authority of $237,930. Of this increased authority, $234,965 was expended before fiscal year-end 1994-95.

The department reduced expenditures charged to fiscal year 1994-95 appropriations and charged them to fiscal year 1993-94 appropriations. Since the department did not have support for the transactions which identified the expenditures as having occurred in fiscal year 1993-94, the charges to the 1993-94 year appropriations violate state law. Prior year appropriations were improperly charged $330,622 and $523,206 in the General and Special Revenue Funds, respectively. Department personnel said the adjustments were made because appropriation authority in the current year had been exhausted. We calculated fiscal year 1994-95 General Fund appropriations would have been overspent by $8,050 had the expenditures been charged to current year appropriations, indicating the department should have requested a supplemental appropriation from the 1995 Legislature.

**Recommendation #5**

**We recommend PHHS:**

**A. Review transaction support to ensure expenditures are allowable to the appropriations charged.**

**B. Revert $234,965 to the General Fund.**

**Refinancing Existing Programs**

The department received additional appropriation authority in the federal Special Revenue Fund to "refinance" certain activities in its child welfare and foster care programs during the 1995 biennium. In specific language, the legislature agreed the department could use resources released by financing these ongoing programs with federal rather than state funds to initiate additional services aimed at preventing child abuse in and dissolution of "at risk" families.

Although the department received reimbursement for federal participation in certain programs previously financed with state funds, the expenditures for additional preventive services will not be reimbursed. The department charged expenditures related to its preventive services to the "refinancing" appropriation in the federal special revenue fund. These expenditures did not arise from federal programs. Section 17-2-102(1)(a)(ii), MCA, states that the special revenue fund type accounts for proceeds from specific revenue sources that are legally restricted for expenditure for specific purposes. In the federal special revenue fund, these funds come from federal sources. As a result of the department's actions, fund balance in the Special Revenue Fund is understated by $1.8 million at June 30, 1995. (Special Revenue Fund fund balance is discussed further on page 19.) These expenditures should have been paid from authority in the General Fund.

The increased federal participation effectively released General Fund authority. Rather than using this authority for initiating additional preventive services, as intended by the 1993 legislature, the department charged preventive services expenditures to the

federal Special Revenue Fund refinancing appropriation. This action, in effect, again released General Fund appropriation authority which the department used for unanticipated growth in its existing programs.

Since specific appropriation language indicated legislative intent that the department use General Fund resources recaptured by refinancing for prevention programs, the department should have requested a supplemental General Fund appropriation from the 1995 Legislature to cover unanticipated growth in its existing programs.

**Recommendation #6**

**We recommend PHHS:**

**A. Charge family services expenditures to the proper fund in compliance with state law.**

**B. Seek supplemental appropriation authority when such authority appears necessary to carry out the department's legally mandated mission.**

**C. Reimburse the federal Special Revenue Fund $1.8 million.**

**Invalid Fund Transfer**

During the 1994-95 fiscal year-end period, the department recorded valid expenditures of federal programs as expenditures of the General Fund. As a result, expenditures are overstated in the General Fund and understated in the federal Special Revenue Fund by $24,921. Fund balance is understated in the General Fund and overstated in the federal Special Revenue Fund by $24,921. Fiscal personnel said the expenditure recording errors resulted from transactions entered to adjust appropriation balances.

These errors and the instances discussed in the preceding three sections demonstrate the need for procedures to improve monitoring of appropriations and expenditures. With the complex

matching requirements of department programs, a high volume of year-end adjustments increases the likelihood of errors. The department could and should reduce the need for year-end adjustments by allocating expenditures more frequently than quarterly, projecting costs by program, and accumulating costs by period incurred. All of these procedures are currently used in other PHHS operations.

**Recommendation #7**

**We recommend PHHS:**

**A. Implement procedures to facilitate projecting and tracking expenditures.**

**B. Transfer $24,921 from the federal Special Revenue Fund to the General Fund.**

**Approved Operating Budget**

The Office of Budget and Program Planning (OBPP) approves operating budgets for executive branch agencies. For the department, operating budgets are approved for each program. The operating budget includes the categories of personal services, operating expenses, equipment and intangible assets, grants, and benefits and claims. The department is required to record the operating budget and any approved changes on SBAS.

Section 17-7-138, MCA, states "Expenditures by a state agency must be made in substantial compliance with an operating budget approved by an approving authority. Substantial compliance means that a first-level category in the operating budget may not be exceeded by more than 5 percent." We noted expenditures in the Program Management Program exceeded the approved operating budget by more than 5 percent for two of the established categories during fiscal year 1994-95. Operating and grant expenditures exceeded the approved operating budget by approximately 15 percent and 16 percent, respectively. Equipment expenditures

exceeded the approved operating budget by 13 percent in the Management Support Program in fiscal year 1994-95.

In the previous three audit reports, we recommended the department establish procedures to ensure expenditures do not exceed the approved operating budgets. We noted the department has cost centers on SBAS specifically designed to monitor expenditures and operating budgets associated with the biennial appropriation law and pay plan. Even with this control mechanism in place expenditures exceeded operating budgets by more than 5 percent in certain categories.

**Recommendation #8**

**We recommend PHHS limit variances from approved operating budgets as required by law.**

## Special Revenue Account Fund Balance

The department maintains a federal special revenue account to record the activity related to its federal programs. Because revenue is recognized for the federal programs as the expenditures are incurred, the balance in this account should be zero at fiscal year-end. At fiscal year-end 1994-95, this account had a negative fund balance of almost one million dollars. The largest programs recorded in this account include Foster Care (CFDA #93.560, 93.645, 93.658, 93.674) and the Aging program (CFDA #93.044, 93.045). These federal funds are provided by the U.S. Department of Health and Human Services. As seen in Table 5, this account has not had a zero fund balance since the creation of the department.

Table 5

Fund Balance Analysis

| | Ending Fund Balance |
|---|---|
| FY 1987-88 | $ 200,237 |
| FY 1988-89 | 1,773,935 |
| FY 1989-90 | 382,947 |
| FY 1990-91 | 1,126,920 |
| FY 1991-92 | 3,000,325 |
| FY 1992-93 | 3,413,679 |
| FY 1993-94 | 2,741,177 |
| FY 1994-95 | (920,881) |

Source: Compiled by the Legislative Audit Division

In the previous audit of the department, we recommended the department ensure its special revenue fund accounts were reconciled and the fund balances were correct at the end of the fiscal year. The department concurred and said monthly accounting reports would be reviewed and reconciliations provided, where required. As of September 26, 1995, the account had not been reconciled.

We performed a fund balance analysis and identified the following concerns which affect the fund balance in this account.

-- Revenue accruals are recorded based on an estimate of what the expenditure accrual will be. The expenditure accrual is based on actual expenditures. Since the revenue accrual does not reflect the improved data used to accrue expenditures, the revenue and expenditure accruals are not consistent. For this reason, the revenue accrual for foster care was understated by $1.8 million for fiscal year 1994-95.

-- The department expended $1.8 million from appropriations in fiscal year 1994-95 in the federal Special Revenue Fund for costs not associated with federal assistance programs. This resulted in a reduction of $1.8 million in the Special Revenue Fund balance. Further discussion of this issue appears on page 16.

-- The department collects money from parents and other third parties to pay for the costs of children in foster care. In fiscal year 1993-94, the department received more third party contributions than it had authority to spend; therefore, the

department recorded the excess contributions in the federal account. The corresponding expenditures were recorded in the General Fund. This resulted in an overstatement of the Special Revenue Fund balance by $390,708. (See page 22 for more details on this situation.)

-- The department did not accrue revenue in the federal Special Revenue Fund for certain computer system development costs. As a result, revenue and fund balance were understated by $672,501 for fiscal year 1993-94 in the Special Revenue Fund.

-- In fiscal year 1991-92, the department accrued $1.9 million of revenue for the Developmentally Disabled Targeted Case Management program. The recorded expenditures did not support the entire revenue accrual. By fiscal year 1994-95, there was still $627,123 remaining on the revenue accrual although the program no longer existed at the department. The accruals were written off at fiscal year-end.

In the previous three audits, we identified significant accounting errors which contributed to the inappropriate fund balance in the federal special revenue account. This report discusses procedural concerns that contribute to the inaccuracy of the ending fund balance. Since the department is unable to reconcile the history of this account balance, it is not practical for us to determine the dollar effect on revenues, expenditures, assets, or liabilities recorded in the accounting records. The department should review overall accrual procedures and their impact on the accuracy of the ending fund balance.

**Recommendation #9**

**We recommend PHHS:**

**A. Ensure the federal Special Revenue Fund account is reconciled and balances are correct at the end of the fiscal year.**

**B. Review expenditure and revenue accrual procedures for consistency and accuracy.**

**Accuracy of Accounting Records**

State law and accounting policy requires transactions entered on the state's accounting system be recorded in accordance with generally accepted accounting principles. Accounting for financial activity in accordance with these requirements improves the quality, consistency and comparability of the resulting financial information. It also ensures that revenue and expenditures are properly and consistently measured within each fiscal year.

**Third Party Payments**

The department collects money from parents and other private parties to pay costs of children in foster care. Department personnel record these collections and the related expenditures in a Special Revenue Fund account. Since these collections usually occur after the foster care costs have been paid, the department may reduce expenditures previously charged to the General Fund, federal grants and counties.

In fiscal year 1993-94, the department received more funds from private parties than it had appropriation authority to spend from the state Special Revenue Fund account. The department expended the account to the limit and recorded a like amount of revenue in it. The department recorded revenue from private parties in excess of the appropriation limit in the federal account, but charged the related expenditures to the General Fund. As a result, General Fund balance is understated and Special Revenue Fund balance is overstated by $390,708.

The department bills county governments for a share of child welfare services administration and a portion of certain foster care benefit payments. In fiscal year 1994-95, the department reduced expenditures in excess of the appropriation in the Special Revenue Fund and charged them to the refinancing appropriation in the federal account. But the department also reduced third party revenue by the same amount and reduced expenditures charged to other appropriations in the federal account. As a result, revenue and expenditures are understated by $461,739 in the Special Revenue Fund in fiscal year 1994-95. In addition, by improperly reducing expenditures of two appropriations in the federal account, department personnel removed support for $461,739 in federal assistance expenditures from the state's accounting records.

Section 17-1-102(5), MCA, requires agencies to maintain accounting records in accordance with generally accepted accounting principles. By not matching expenditures with revenue in the same fund, the department did not follow accepted accounting practice. To correct the effect of the 1993-94 accounting error, the department should transfer $390,708 from the federal Special Revenue Fund account to the General Fund. The department should also record expenditures and revenues on the state's records to properly reflect program activity.

**Recommendation #10**

**We recommend PHHS:**

**A. Transfer $390,708 from the Special Revenue Fund to the General Fund.**

**B. Record expenditures and revenue for third party foster care payments in accordance with state law and policy.**

**County Participation**

County governments pay a portion of Foster Care benefits and administrative costs from operations of foster care programs in the county. County participation in these programs reduces state expenditures of the programs. At fiscal year-end 1994-95, the department recorded $96,257 in expenditures charged to counties in the state Special Revenue Fund and reduced expenditures in the federal Special Revenue Fund account by the same amount. Since county participation reduces state cost, General Fund expenditures should have been reduced. As a result, General Fund expenditures are overstated and Special Revenue Fund expenditures are understated by $96,257. In addition, the department may have underrecovered from federal programs as a result of the error. Department personnel did not furnish any support for the recorded transaction. Section 17-8-202(1), MCA, requires a state agency to retain the original support documents for claims against the state.

**Recommendation #11**

**We recommend PHHS:**

**A. Retain support for expenditure transactions as required by state law.**

**B. Transfer $96,257 to the General Fund from the federal Special Revenue Fund.**

**Improper Federal Charges**

The Department of Social and Rehabilitation Services (SRS) contracted with a private firm to develop the Montana Automated Child Care System. SRS received authorization to pay for the system with federal funds. The department agreed to pay half the state match and supply additional funding from the Child Care Block Grant (CFDA #93.575).

When SRS billed the department in June 1994, department personnel recorded the expenditures as IV-E Foster Care (CFDA #93.658) system development. In the following fiscal year, the department adjusted its original entry by reducing IV-E Foster Care costs and the General Fund. The department then charged the whole cost to the Child Care Block Grant. As a result, the department matched a federal grant with another federal grant, a violation of federal regulations. The department overcharged two federal programs as shown below. We question these costs.

| | | |
|---|---|---|
| IV-E Foster Care | CFDA #93.658 | $28,823 |
| Child Care Block Grant | CFDA #93.575 | $36,199 |

The document used by SRS to bill the department clearly showed the amount which should have been charged to the General Fund, an amount which we verified to be half of the required match.

**Recommendation #12**

**We recommend PHHS ensure:**

**A. Federal assistance is matched with state funds as required, and**

**B. Expenditures are charged to the correct federal program.**

**Equipment Purchases**

The department purchased computer equipment to implement its Child Adult Protective System (CAPS), a new client database. We found several errors in accounting for these purchases.

-- The department purchased $1,136,396 in equipment and software on a lease purchase agreement with a vendor. Accounting personnel did not record the lease purchase on the state's records at the time of the purchase in fiscal year 1993-94. One department official said the transaction was not recorded because accounting personnel were not aware the agreement existed until the department paid the bill in full the following year.

-- The department purchased 11 printers worth $14,718 in December 1993 and a projector for $1,749 in April 1994. State accounting policy requires state agencies to record equipment items with value greater than $1,000 on the property records. The department had not recorded these items on the property records at the close of fiscal year 1994-95. Computer management personnel said accounting is not notified until the equipment is assigned to a location.

-- The department purchased 36 computers for $2,513 each and recorded them on the property records at $1,915 per unit. In addition, the department purchased 32 disc drives at an average cost of $1,780, installed them in the computers, but did not add the value of the drives to the recorded value of the computers. The department also recorded a laptop computer at $395 less than its purchase price. As a result, department property records are understated by $79,473. Department accounting personnel said they rely on computer management personnel to value data processing equipment.

With equipment such as computers, where components are sometimes assembled on site, it is necessary to facilitate communication between those who understand the equipment and those who account for it.

**Recommendation #13**

**We recommend PHHS facilitate communication between accounting and data processing employees necessary to properly record equipment purchases.**

**County Receivables**

The department bills county governments for a share of child welfare services administration and a portion of certain foster care benefit payments. In June 1995, department had $40,669 in receivables from county governments that were more than a year old and another $48,298 due from county governments for fiscal year 1993-94. Department accounting personnel said some of the older receivables resulted from billing foster care payments for which the county had not reserved expenditure authority.

Under generally accepted accounting principles, the department should record an allowance for doubtful accounts and bad debt expense to properly value receivables and the cost of bad debts. Department fiscal management should also use the debt collection services of the Department of Administration. Since the foster care costs are valid charges to the counties and counties receive other payments from the state, the foster care costs could be recovered through offset.

**Recommendation #14**

**We recommend PHHS:**

**A. Record bad debt expense and an allowance for doubtful accounts on the state's accounting records.**

**B. Initiate collection of unpaid foster care charges to counties through offset of other payments by the Department of Administration.**

**Federal Reporting**

Federal regulations require accurate reports. We reviewed various quarterly reports for federal programs and verified support for amounts presented on these reports and the department's Schedule of Federal Financial Assistance (SFFA). The following paragraphs discuss errors identified in the review.

-- The department records foster care expenditures from voluntary or nonvoluntary placements as required by federal regulations based on the eligibility codes in the foster care database (CFDA #93.658). The department contracts with various Indian tribes throughout Montana to provide certain foster care services for wards of the tribes. To track these expenditures, the department moves the expenditures from the voluntary and nonvoluntary accounts to tribal accounts. By doing this the department loses the ability to identify these expenditures as voluntary or nonvoluntary. The department classifies tribal expenditures as voluntary expenditures on the federal report. Based on review of these costs, 90 percent of the tribal children are nonvoluntary placement. The department incorrectly reports approximately $500,000 of costs as voluntary placement instead of nonvoluntary placement each fiscal year. Personnel stated the current method is the easiest for bookkeeping purposes. Personnel further stated the process will be refined in fiscal year 1995-96. The department should set up two accounts for each tribe and move the costs to the appropriate account based on the type of placement.

-- Federal regulations state costs incurred prior to the effective date of the grant agreement are allowable if specifically

provided for in the grant agreement. The department reported costs incurred in development of its Child Adult Protective System (CAPS) prior to October 1, 1993, the date of approval of federal financial assistance for the project. The agreement did not specifically approve any pre-agreement costs. Therefore, we question $12,120 in charges to IV-E Foster Care (CFDA #93.658) under the CAPS agreement.

-- When the department reported IV-E Foster Care (CFDA #93.658) costs for the quarter ended June 30, 1995, personnel transposed one expenditure amount and omitted certain training costs. As a result, the department did not report and bill $73,241 of valid federal costs. Department personnel attributed the mistakes to human error and said the amounts would be billed in the quarter ended September 30, 1995.

-- We found errors while tying the SFFA to the quarterly Financial Status Reports for Title III Aging (CFDA #93.045). The quarterly reports showed $283,361 more expenditures for the year ended June 30, 1994. Aging program personnel, who prepare the quarterly reports, attributed the difference to using the wrong month's financial information to complete the reports and including amounts in inappropriate categories. Personnel said the quarterly reports sometimes are completed before fiscal personnel provide a cost worksheet summarizing the costs for the quarter. These errors did not generate questioned costs.

-- The department uses a random moment time study to determine the amounts billed to various federal programs. The study determines how much time field office employees spend on each program. For the quarter ended March 31, 1994, department personnel made an error in the amounts billed for Title IV-A (CFDA #93.560) and Title XIX (CFDA #93.778). Although the department added the amounts missed to the next quarter's billing, the costs were allocated by the random moment time study results for the following quarter. As a result, the department underbilled Title IV-A by $8,305 and overbilled Title XIX by $457.

-- The department established a training account with the incorrect match between federal and state dollars. As a result, IV-E Foster Care (CFDA 93.658) and the General Fund were underbilled and overcharged by $1,226, respectively.

Federal reporting for family services programs entails detailed allocation procedures such as random moment time study of employee effort, various program match requirements, allocation of

indirect cost pools, and federal participation rates which vary each federal fiscal year. Improved reporting for family services programs could be attained by using a checklist for compiling reports from cost allocation spreadsheets and for correcting various types of errors.

**Recommendation #15**

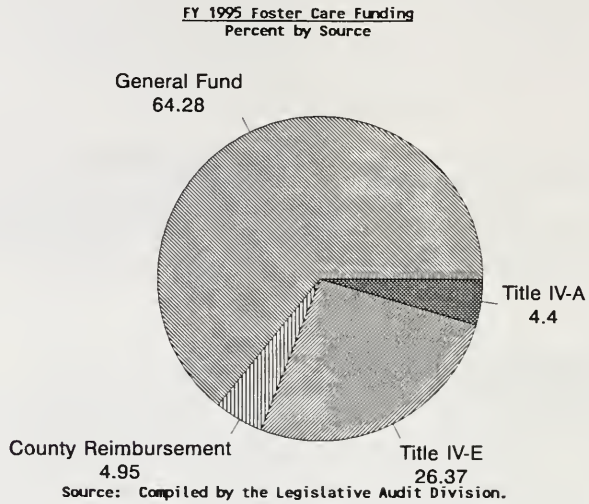
**We recommend PHHS improve consistency and accuracy of federal reporting for family services programs.**

## Foster Care

The department administers the foster care program. Foster care is the full-time care of youth in a residential setting for purposes of providing food, shelter, security and safety, guidance, direction, and if necessary, treatment of youth who are removed from or are without care and supervision of their parents or guardian.

Foster care is funded through the state General Fund, county reimbursement, and federal assistance programs. According to the department's accounting records, the department spent $18 million to operate the foster care program in fiscal year 1994-95. The source of funding is as follows:

Figure 1




Source: Compiled by the Legislative Audit Division.

During our audit we noted the department could improve procedures related to determining eligibility for foster care, entering proper eligibility codes into the computer systems, reconciling foster care data between computer systems, billing the federal government for documented costs and implementing controls over foster care payments.

**Procedures for Determining Title IV-E Foster Care Eligibility**

The federal Title IV-E foster care program (CFDA #93.658) provides financial support for foster care services and related program administration. To be eligible for Title IV-E funding, the foster care child must have been removed from the home by the means of a judicial determination or voluntary placement agreement. In addition, the child must be eligible for Aid to Families with Dependent Children (AFDC) benefits. The judicial determination must be made within six months of the child's removal from the home. The judicial determination must include a statement that reasonable efforts were made to prevent removal, and that removal is in the best interest of the child.

**Eligibility Determination**

We tested case file documentation for a sample of 37 children in foster care during fiscal years 1993-94 and 1994-95 to determine if payments were made on behalf of eligible clients. We noted the following instances where the department made payments on behalf of ineligible children.

- In three instances the children were not removed from their families' AFDC grants. The child cannot be eligible for federal foster care benefits and receive benefits as a member of a family unit.

- In one instance, the child was not eligible for AFDC.

- In two instances, the court order did not include the reasonable efforts language.

- In two instances, where the children were in and out of foster care, the department did not obtain new court orders with the required language for each time the children returned to foster care.

In another instance, the date of release from department custody was the child's 19th birthday when it should have been the 18th birthday. This could result in payments on behalf of the child after his 18th birthday.

As a result of the problems identified, we question Title IV-E costs of $7,211 and $3,964 in fiscal years 1993-94 and 1994-95, respectively.

According to department personnel, the issues noted will be addressed by a new computer system. Department personnel project the system conversion will start November 3, 1995, with all county offices being on the system by July 1, 1996.

A computer system changes the manner in which information is processed. However, it will not ensure payments are made for eligible children. For example, the computer system is designed to have personnel in the field enter the date of all court orders, and enter whether the court documents contain the required language. The computer system is not designed to verify that this language is in the first court order obtained after the child's removal from his home as required by federal regulations. The department needs to

include monitoring controls of information entered to ensure payments are made on behalf of eligible clients.

**Recommendation #16**

**We recommend PHHS implement a control system to ensure Title IV-E foster care payments are made on behalf of eligible clients in accordance with federal regulations.**

**Foster Care Database**

The department tracks foster care payments in the foster care database. An eligibility code is assigned to each expenditure entered in the system. The database uses the eligibility code to identify the funding source for the expenditures. The department updates the Statewide Budgeting and Accounting System (SBAS) weekly with financial activity recorded on the database. State warrants are then generated for payments to foster care providers. The department uses the information recorded on SBAS to bill the federal government and counties for their share of the foster care payments. The following sections discuss concerns we have regarding the accuracy of information on the database and SBAS.

**Matching Eligibility to Funding Sources**

In our review of 557 expenditures charged on behalf of 37 children in foster care during fiscal years 1993-94 and 1994-95, we identified the following instances where the incorrect eligibility code was used.

-- In one instance, the child's foster care was charged to a federal program, but should have been charged to a state program. The federal questioned costs associated with this child are included in the report section on page 33.

-- In eight instances the child's foster care was recorded as state foster care, but should have been charged to a federal program.

-- In one instance the child's foster care commitment was coded as voluntary, rather than court-ordered. This has no fiscal impact, but does impact federal census reporting.

We identified concerns with foster care payment funding sources in the past two audits. The department concurred with our recommendations regarding these issues. The department hired a financial specialist for each region to implement these recommendations. The financial specialists review the files to ensure the eligibility codes used are proper. Seven of the eight instances identified above, where a child's funding source could have been federal, were errors the financial specialists identified. The department did not bill the federal government for seven months after the financial specialists finished their work, delaying the recovery of $27,311 of federal funds.

Department personnel said the department relies on field personnel to provide the appropriate eligibility code. Sometimes field personnel use a form with an old eligibility code on it, without realizing the child should be under a new funding source. Department personnel expect the implementation of the new computer system (as discussed on page 31), will prevent these problems. The department should consider controls, such as periodic file reviews by financial specialists, to ensure payments are made on behalf of eligible children.

**Recommendation #17**

**We recommend PHHS establish procedures to ensure the funding source charged is correct based on a child's eligibility.**

**Foster Care Corrections**

Based on records provided by the department, financial specialists identified $296,404 of charges made to the federal foster care program incorrectly. A portion of these charges were paid with federal funds. Since the charges were not allowable costs of the federal program, federal funds should not have been used to pay them. Applying the appropriate federal share to these expenditures we question the following amounts:

| Grant | CFDA # | Fiscal Year 1993-94 | Fiscal Year 1994-95 | Total |
|---|---|---|---|---|
| Title IV-E | 93.658 | 128,056 | 37,441 | 165,497 |
| Title IV-A | 93.560 | 10,121 | 21,550 | 31,671 |

The department's financial specialists also identified $861,476 which should have been charged to the federal foster care program but was paid solely with General Fund money. With the required state match subtracted from the total, the department should have recovered an additional $565,682. In total, the adjustment from the financial specialist file review could result in a net benefit to the state General Fund of $368,514.

Department accounting personnel stated that adjustments between state and federal funding sources have offset in past periods and have been immaterial, so the department has not recorded adjustments to SBAS. After the department hired financial specialists for each region, the department identified more errors on the database, but still did not adjust SBAS. After we brought this issue to the attention of the department, department personnel adjusted SBAS and requested additional money from the federal government.

**Recommendation #18**

**We recommend PHHS:**

**A. Record foster care adjustments on SBAS.**

**B. Recover $565,682 of federal funds for eligible foster care services.**

**SBAS and Database Reconciliations**

In previous audits of the department, we recommended the department reconcile SBAS and its foster care database on a timely basis. During fiscal year 1993-94, department personnel compared the totals recorded on SBAS to the totals recorded on the database, but did not document the reasons for the differences. Department

personnel stated the differences, less than one percent of total, were immaterial.

Because the database cannot be adjusted, and adjustments are made to SBAS, the systems do not agree. The department must reconcile the differences to document that the differences are a result of adjustments made to SBAS. Also, by comparing the two systems in total rather than by funding source, the department cannot ensure the amounts charged to federal programs are supported by the detail records on the database. Federal regulations require all federal charges be supported by the accounting records.

During fiscal year 1994-95, department personnel attempted to perform a more detailed reconciliation of the two systems. Several of the numbers in the comparison were unsupported and the differences were not all explained. Several of the reports printed from the database were manually adjusted to reflect SBAS, rather than explained as reconciling items. As a result, the validity of the database as support for SBAS amounts cannot be verified.

Personnel said the new computer system (discussed on page 31) will provide the detail necessary to perform a reconciliation with SBAS records.

**Recommendation #19**

**We recommend PHHS reconcile SBAS and its foster care database on a timely basis to ensure financial information on the state's accounting records is accurate and complete.**

**Procedures for Cancelled Warrants**

Department personnel often have to follow up on overpayments, lost checks, or problems that arise regarding foster care payments. Occasionally, the department has to cancel a database generated warrant and reissue a warrant directly from SBAS. To facilitate the department's ability to track which child's payments were made on a single warrant, the database records the warrant number associated with each service. Although corrections cannot be made

to the database, the database will accept a code which shows the warrant was cancelled. The database also has a memorandum field to show the SBAS warrant number and amount for a reissued warrant.

Even though the system allows these entries, department personnel do not record this information on the database. We found department personnel could trace case problems faster, reconcile database/SBAS differences more easily and reduce risk of duplicate payments by recording this information.

**Recommendation #20**

**We recommend PHHS record warrant cancellations and reissuances on the foster care database.**

**Controls Over Payments to Residential Treatment Facilities**

Children who have been placed in the care of the department may be placed in a residential treatment facility. If a child is certified as medicaid eligible, medicaid pays for treatment at the residential treatment center. If the certification is retroactive, medicaid will pay for all the services rendered to date. The department may have already paid for those services with foster care funds. We identified several instances where residential treatment facilities returned payments totalling $55,420 to the department because medicaid paid for the services.

In 1995, department personnel cross-matched payments from the medicaid computer system with payments from the foster care database system. The department estimated $133,478 of double payments occurred over the last three years. Department personnel said follow up on these double payments is in progress.

The department could establish control procedures to prevent or identify double payments by:

-- developing a process to cross-match with the medicaid program searching for double payments.

-- performing a quarterly cross-match similar to the one performed in 1995.

-- working with the Medicaid Services Division of PHHS to develop a system where the department is notified of retroactive certifications.

**Recommendation #21**

**We recommend PHHS establish procedures to prevent payment to residential treatment facilities by both medicaid and foster care for the same services.**

**Late Payments to Providers**

Foster care providers submit bills to the department for reimbursement for care provided to children. Services must have approval from the social worker, the regional manager, and the financial specialist prior to payment. Section 17-8-242, MCA, states "State agencies shall pay simple interest at the rate of .05 percent each day on amounts due for supplies and services received if the agency fails to make timely payments." The law further defines timely as within 30 days after the receipt of a properly completed invoice. There is an exception for cases in dispute.

-- Of the 557 transactions we reviewed, 45 were paid more than 30 days from the service date. Eight of the payments were more than 100 days after the date. Department procedures did not track the invoice date so, it was impractical for us to identify which payments were actually late or the reason for the late payments. For the transactions noted, the department could be liable for $778 in interest.

-- A provider had notified the department of 16 cases where the department had not yet paid for services by June 1, 1995. For three of the cases, the department's records indicated payments should have been sent in April and May 1994. The department owes $11,050 for these services and is subject to $3,826 of interest on late payments.

-- In another case, the department overpaid the provider discussed above by $3,918 but has yet to collect the overpayment. The potential for offset exists in this case.

Department personnel said payments are often late because the invoice reaches the central office before the supporting documents are received. Personnel said 13 of the cases cited above were in dispute, but we could not find documentation of the disputes in the files.

Since the department could be liable for interest, it is important that the department make timely payments. If a dispute occurs, the department should clearly document the dispute. Department procedures should also track disputed vendor invoices so timely payments occur when dispute claims are settled.

**Recommendation #22**

**We recommend PHHS:**

**A. Implement procedures to pay foster care providers in accordance with state law.**

**B. Establish procedures to track foster care charges in dispute.**

## Trust Account Management System

The department maintains individual cash accounts for foster care children. The department receives money on behalf of the children and disburses the money upon request, using its Trust Account Management System (TAMS). The money is recorded in an Agency Fund on SBAS and is invested through the Board of Investments to earn interest income. Maintaining accountability over the children's accounts is part of the department's fiduciary responsibilities to the children. We identified the following areas where the department could improve controls over the trust accounts.

**Time Lag of Foster Care Payments**

The department collects Social Security, Supplemental Security Income, retirement benefits, and child support payments on behalf of children in foster care. The department may use a portion of these payments to pay for the cost incurred by the department for foster care.

Each month personnel review a report from the foster care database which shows the amount of foster care charges incurred on behalf of each child. Department personnel reduce the child's account for foster care costs paid on behalf of the child up to the amount available in the account. A TAMS report shows how much was removed from the child's account, and the funding source of the original foster care charge. Personnel use this report to reduce the amounts charged to state and federal sources on SBAS.

Currently there is a one to four month delay from the time the money is removed from the child's account and the time the money is reimbursed to the state General Fund and federal programs. During this time, the department allocates the interest earnings to each child's account based on the balances on TAMS. Since the money belongs to the state from the time it is removed from the child's account, the interest earnings should go to the state General Fund. We reviewed the delays in these transactions from August 1993 until March 1995 and estimate $9,972 of lost interest to the state.

**Recommendation #23**

**We recommend PHHS transfer foster care payments to the General Fund when they are removed from the childrens' accounts.**

**Accuracy of Foster Care Payments**

The report prepared by TAMS of foster care payments from clients' accounts does not provide adequate detail for entry into the foster care database. Manual adjustments must be made to this report to reflect actual entries made, increasing time spent and the risk of errors.

We reviewed the adjustments for one month. We identified several instances where the department credited the foster care database twice for one client's payment. By doing this the department understates the state's foster care expenditures and transfers too much cash from the Agency Fund. Personnel indicated the hand written adjustments made to the TAMS reports caused the error. We also noted several instances where the funding source indicated on TAMS was not the same funding source reduced on the database.

The department did not identify these errors because it does not properly reconcile TAMS and SBAS. Personnel indicated the problems with the reconciliation occurred when the position assigned the reconciliation was vacant for almost a year. During the vacancy, the duties were split among other staff. When the position was filled, not all of the information about the reconciliation process was given to the new employee. Personnel said the new computer system, which replaces both TAMS and the foster care database should solve a number of these problems. The adjusting entry will only be made once, since the system will transmit the information to SBAS.

The department should establish controls to ensure the foster care database, TAMS and SBAS all reconcile until the new computer system is on-line. Once the new system is on-line the department will need to reconcile the information on the new system to SBAS.

**Recommendation #24**

**We recommend PHHS implement an effective reconciliation of its trust account subsystem to SBAS.**

**Abandoned Property**

Section 70-9-206, MCA, states all tangible property, and any income from it, held in a fiduciary capacity for the benefit of another person is presumed abandoned after five years. State law further requires the responsible party to turn abandoned property over to the state Department of Revenue.

In fiscal year 1987-88, when the department was formed, the department received money from the Department of Corrections and Human Services for children who had turned 18 and left state custody. Department personnel stated they have received requests for the funds, but it has been a few years since the last request. As of January 1995 the department still had $3,322 of this money.

**Recommendation #25**

**We recommend PHHS transfer abandoned property to the Department of Revenue in compliance with state law.**

**Notification of County Attorney**

Section 41-3-201, MCA, states the department shall notify the county attorney of instances of known or suspected abuse or neglect reported to the department. During the audit we noted the department policy does not specify procedures to ensure the county attorney is notified. Responsibility for developing procedures is left to department staff in each county.

According to central office personnel, establishing procedures for notifying the county attorney of reported cases of abuse or neglect is delegated to each county office. We performed a review of three county offices and noted two counties which do not notify the county attorney of reports of abuse or neglect. According to personnel at one county office, the referrals are made available for the county attorney to review, but the county attorney does not come into the office to review the cases. The county office has not developed alternative procedures for notifying the county attorney.

Personnel at the second office stated the county attorney's office notified them to stop sending copies of the referrals because the documents are not used. The county office then tried to have their child protective services team meetings at the county attorney's office to notify him of the new referrals. The meetings are now held at the department office with the county attorney invited, but the county attorney has only attended two of the weekly meetings in the past year.

Personnel at both county offices are aware that the current procedures are not in compliance with state law. In our prior audit report we recommended the department establish procedures to ensure the appropriate county attorney is notified of all known or suspected abuse or neglect reported to the department, or seek legislation to amend the law as appropriate. The department subsequently agreed to establish procedures. Department management has not monitored the effectiveness of county office actions.

**Recommendation #26**

**We recommend PHHS implement effective procedures to notify the county attorney of known or suspected cases of neglect reported to the department.**

# Independent Auditor's Report & Agency Financial Schedules

# Summary of Independent Auditor's Report

**Summary of Independent Auditor's Report**

The auditor's opinion issued in this report is intended to convey to the reader of the financial schedules the degree of reliance which can be placed on the amounts presented. We issued an adverse opinion on the financial schedules for the fiscal years ended June 30, 1994 and 1995. The reader should not place reliance on the financial information from the Statewide Budgeting and Accounting System (SBAS) presented in these schedules. Based on the number and type of issues found during the current audit of the department, we believe there is a substantial risk that additional accounting issues exist that have not been detected. We believe the accounting records are misleading.

Montana Legislative Branch

Legislative Audit Division
Scott A. Seacat, Legislative Auditor

# INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying financial schedules of the Department of Family Services for each of the two fiscal years ended June 30, 1994 and 1995, as shown on pages A-5 through A-11. The information contained in these financial schedules is the responsibility of the department's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than generally accepted accounting principles. The schedules are not intended to be a complete presentation and disclosure of the department's assets and liabilities.

The department was unable to provide adequate accounting records to support the Special Revenue Fund fund balance deficit of $386,813 at June 30, 1995, on the Schedule of Changes in Fund Balances and as described in note 4 to the financial schedules.

In fiscal year 1994-95, the department based the Special Revenue Fund revenue accrual on an expenditure estimate which differed from the expenditure base used in accruing expenditures. As a result, revenue accrued for foster care was understated by $1.8 million on the Schedule of Changes in Fund Balances and the Schedule of Revenue & Transfers In - Estimate & Actual.

In fiscal year 1994-95, the department expended $1.8 million from appropriations in the federal Special Revenue Fund for costs not associated with federal assistance programs. As a result, Special Revenue Fund expenditures are overstated and General Fund expenditures are understated by $1.8 million on the Schedule of Changes in Fund Balances and the Schedule of Budgeted Program Expenditures by Object & Fund - Budget & Actual for the fiscal year ended June 30, 1995.



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In fiscal year 1993-94, the department recorded foster care payments from third parties as revenue in the Special Revenue Fund but recorded the expenditures in the General Fund. As a result, the Special Revenue Fund fund balance is overstated by $390,708 on the Schedule of Changes in Fund Balances. Expenditures and support from the state of Montana are overstated in the General Fund on the Schedule of Budgeted Program Expenditures and Transfers Out by Object & Fund - Budget & Actual for the fiscal year ended June 30, 1994 and the Schedule of Changes in Fund Balances.

The department reduced expenditures to fiscal year 1994-95 appropriations and charged 1993-94 appropriations for expenditures which did not occur in the prior year. As a result, current year expenditures are understated by $330,622 and $523,206 in the General Fund and Special Revenue Fund, respectively, on the Schedule of Budgeted Program Expenditures by Object & Fund - Budget & Actual for the fiscal year ended June 30, 1995. Prior year expenditure adjustments are overstated for fiscal year 1994-95 in these funds by the same amounts on the Schedule of Changes in Fund Balances.

The department did not accrue certain federal assistance revenue related to computer system development costs. As a result, federal revenue is understated by $672,501 on the Schedule of Budgeted Revenue & Transfers In - Estimate & Actual for fiscal year 1993-94. Budgeted revenue and transfers in is understated by $672,501 in the Special Revenue Fund for fiscal year 1993-94 on the Schedule of Changes in Fund Balances.

In our opinion, because of the effects of the matters discussed in paragraphs four through nine, the financial schedules referred to above do not present fairly, in conformity with the basis of accounting described in note 1, the results of operations and changes in fund balances of the Department of Family Services for the two fiscal years ended June 30, 1994 and 1995.

Respectively submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

December 22, 1995

DEPARTMENT OF FAMILY SERVICES
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1995

| | General Fund | Special Revenue Funds |
|---|---|---|
| FUND BALANCE: July 1, 1993 | $ 0 | $ 3,441,513 |
| ADDITIONS: | | |
| Fiscal Year 1993-94 | | |
| Budgeted Revenue & Transfers In | 100,871 | 22,810,627 |
| Nonbudgeted Revenue & Transfers In | 20,330 | |
| Support From State of Montana | 35,158,143 | |
| Cash Transfers In | | 45,442 |
| Prior Year Transfers-In Adjustments | | (409,273) |
| Prior Year Expenditure Adjustments | | 84,254 |
| Fiscal Year 1994-95 | | |
| Budgeted Revenue & Transfers In | 204,603 | 26,372,560 |
| Nonbudgeted Revenue & Transfers In | | 275,488 |
| Direct Entries to Fund Balance | 7,767 | |
| Support From State of Montana | 36,058,923 | |
| Cash Transfers In | | 81,860 |
| Prior Year Transfers-In Adjustments | | (3,337) |
| Total Additions | 71,550,637 | 49,257,621 |
| REDUCTIONS: | | |
| Fiscal Year 1993-94 | | |
| Budgeted Expenditures & Transfers Out | 35,111,864 | 22,032,597 |
| Prior Year Expenditures | (452,953) | |
| Prior Year Expenditure Adjustments | 616,502 | |
| Direct Entries to Fund Balance | 3,931 | |
| Prior Year Revenue Adjustments | | 1,026,036 |
| Fiscal Year 1994-95 | | |
| Budgeted Expenditures & Transfers Out | 36,054,207 | 28,262,439 |
| Nonbudgeted Expenditures & Transfers Out | 18,700 | 25,116 |
| Prior Year Expenditure Adjustments | 161,653 | 1,155,392 |
| Prior Year Revenue Adjustments | 36,733 | 613,226 |
| Prior Year Expenditures | | (28,859) |
| Total Reductions | 71,550,637 | 53,085,947 |
| FUND BALANCE: June 30, 1995 | $ 0 | $ (386,813) |

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-9.

DEPARTMENT OF FAMILY SERVICES
SCHEDULE OF BUDGETED REVENUE & TRANSFERS IN - ESTIMATE & ACTUAL
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1995

| | Licenses and Permits | Charges for Services | Investment Earnings | Rentals, Leases & Royalties | Miscel-laneous | Federal Indirect Cost Recoveries | Fines & Forfeits | Sale of Documents, Merchandise & Property | Grants, Contracts, Donations, & Abandonments | Income Collections & Transfers | Federal | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Fiscal Year 1994-95 | | | | | | | | | | | | |
| GENERAL FUND | | | | | | | | | | | | |
| Estimated Revenue | $100,000 | $ 115,150 | $ 30 | | $ 200 | | | | | | | $ 215,380 |
| Actual Revenue | 100,266 | 103,661 | 1 | | 675 | | | | | | | 204,603 |
| Collections Over (Under) Estimate | $ 266 | $ (11,489) | $ (29) | | $ 475 | | | | | | | $ (10,777) |
| SPECIAL REVENUE FUND | | | | | | | | | | | | |
| Estimated Revenue | | $2,732,873 | $1,000 | | $30,000 | $120,000 | $ 5,000 | $ 13,808 | $ 7,000 | $ 2,267,000 | $21,344,906 | $26,521,587 |
| Actual Revenue | | 2,675,570 | 357 | | 23,905 | 103,661 | 3,133 | 3,924 | 2,015 | 380,938 | 23,179,057 | 26,372,560 |
| Collections Over (Under) Estimate | | $ (57,303) | $ (643) | | $(6,095) | $(16,339) | $(1,867) | $ (9,884) | $(4,985) | $(1,886,062) | $ 1,834,151 | $ (149,027) |
| Fiscal Year 1993-94 | | | | | | | | | | | | |
| GENERAL FUND | | | | | | | | | | | | |
| Estimated Revenue | $100,000 | $ 150 | $ 30 | $ 2,400 | $ 200 | | | | | | | $ 102,780 |
| Actual Revenue | 100,828 | 27 | 16 | 0 | 0 | | | | | | | 100,871 |
| Collections Over (Under) Estimate | $ 828 | $ (123) | $ (14) | $(2,400) | $ (200) | | | | | | | $ (1,909) |
| SPECIAL REVENUE FUND | | | | | | | | | | | | |
| Estimated Revenue | | $2,700,227 | $1,000 | | $30,000 | $115,000 | $ 5,000 | $ 17,172 | $ 27,600 | $2,007,142 | $23,615,764 | $28,518,905 |
| Actual Revenue | | 2,627,991 | 412 | | 24,820 | 82,952 | 2,328 | 4,022 | 1,166 | 1,953,791 | 18,113,145 | 22,810,627 |
| Collections Over (Under) Estimate | | $ (72,236) | $ (588) | | $(5,180) | $(32,048) | $(2,672) | $(13,150) | $(26,434) | $ (53,351) | $(5,502,619) | $(5,708,278) |

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-9.

DEPARTMENT OF FAMILY SERVICES
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES BY OBJECT & FUND - BUDGET & ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1995

| | Management Support | Regional Administration | Juvenile Corrections | Program Management | Total |
|---|---|---|---|---|---|
| PERSONAL SERVICES | | | | | |
| Salaries | $ 978,927 | $ 7,386,264 | $ 4,333,459 | $ 813,180 | $13,511,830 |
| Hourly Wages | | 101 | 10,366 | | 10,467 |
| Other Compensation | | 518 | 84 | 6,068 | 6,670 |
| Employee Benefits | 244,647 | 2,037,174 | 1,553,298 | 212,236 | 4,047,355 |
| Total | 1,223,574 | 9,424,057 | 5,897,207 | 1,031,484 | 17,576,322 |
| OPERATING EXPENSES | | | | | |
| Other Services | 2,784,330[1] | 177,089[1] | 694,068[1] | 1,518,194[1] | 5,173,681 |
| Supplies & Materials | 153,404 | 82,287 | 403,958 | 12,537 | 652,186 |
| Communications | 97,527 | 242,424 | 63,619 | 69,895 | 473,465 |
| Travel | 84,058 | 486,284 | 104,741 | 315,536 | 990,619 |
| Rent | 200,959 | 401,196 | 38,995 | 22,626 | 663,776 |
| Utilities | 164 | 13,064 | 213,413 | | 226,641 |
| Repair & Maintenance | 21,467 | 21,137 | 82,251 | 2,635 | 127,490 |
| Other Expenses | 30,566 | 33,050 | 31,036 | 174,140 | 268,792 |
| Goods Purchased For Resale | | 317 | 3,391 | | 3,708 |
| Total | 3,372,475 | 1,456,848 | 1,635,472 | 2,115,563 | 8,580,358 |
| EQUIPMENT AND INTANGIBLE ASSETS | | | | | |
| Equipment | 1,729,589[2] | 33,028 | 70,156 | 54,457 | 1,887,230 |
| Total | 1,729,589 | 33,028 | 70,156 | 54,457 | 1,887,230 |
| GRANTS | | | | | |
| From State Sources | | | | 1,470,019 | 1,470,019 |
| From Federal Sources | | | | 6,926,420 | 6,926,420 |
| Total | | | | 8,396,439 | 8,396,439 |
| BENEFITS & CLAIMS | | | | | |
| To Individuals | | | 29,658 | 27,805,481[3] | 27,835,139 |
| From Federal Sources | | | | 39,493 | 39,493 |
| Insurance Payments | | | | 1,665 | 1,665 |
| Total | | | 29,658 | 27,846,639 | 27,876,297 |
| TOTAL PROGRAM EXPENDITURES | $6,325,638 | $10,913,933 | $ 7,632,493 | $39,444,582 | $64,316,646 |
| GENERAL FUND | | | | | |
| Budgeted | $2,619,343 | $ 6,763,867 | $ 7,224,966 | $22,909,694 | $39,517,870 |
| Actual | 2,609,528 | 6,735,865 | 7,141,224 | 19,567,590 | 36,054,207 |
| Unspent Budget Authority | $ 9,815 | $ 28,002 | $ 83,742 | $ 3,342,104 | $ 3,463,663 |
| SPECIAL REVENUE FUND | | | | | |
| Budgeted | $3,729,275 | $ 4,198,888 | $ 685,882 | $22,225,168 | $30,839,213 |
| Actual | 3,716,110 | 4,178,068 | 491,269 | 19,876,992 | 28,262,439 |
| Unspent Budget Authority | $ 13,165 | $ 20,820 | $ 194,613 | $ 2,348,176 | $ 2,576,774 |

1 See Note 5.
2 See Note 6.
3 See Note 7.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-9.

DEPARTMENT OF FAMILY SERVICES
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES AND TRANSFERS OUT BY OBJECT & FUND - BUDGET & ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1994

| | Management Support | Regional Administration | Juvenile Corrections | Program Management | Total |
|---|---|---|---|---|---|
| PERSONAL SERVICES | | | | | |
| Salaries | $ 834,302 | $ 7,904,891 | $ 4,432,536 | $ 803,488 | $13,975,217 |
| Hourly Wages | | | 13,474 | 1,463 | 14,937 |
| Other Compensation | | | | 1,797 | 1,797 |
| Employee Benefits | 216,069 | 2,111,966 | 1,470,351 | 194,465 | 3,992,851 |
| Total | 1,050,371 | 10,016,857 | 5,916,361 | 1,001,213 | 17,984,802 |
| OPERATING EXPENSES | | | | | |
| Other Services | 830,693 | 1,149,264 | 435,141 | 694,185 | 3,109,283 |
| Supplies & Materials | 65,959 | 82,104 | 417,477 | 41,170 | 606,710 |
| Communications | 112,422 | 224,864 | 72,051 | 48,240 | 457,577 |
| Travel | 88,298 | 498,565 | 94,099 | 149,332 | 830,294 |
| Rent | 146,678 | 360,655 | 38,774 | 32,944 | 579,051 |
| Utilities | | 7,354 | 211,563 | | 218,917 |
| Repair & Maintenance | 10,497 | 20,665 | 101,921 | 12,403 | 145,486 |
| Other Expenses | 14,357 | 30,705 | (2,443) | 187,222 | 229,841 |
| Goods Purchased For Resale | 6 | | 2,746 | | 2,752 |
| Total | 1,268,910 | 2,374,176 | 1,371,329 | 1,165,496 | 6,179,911 |
| EQUIPMENT AND INTANGIBLE ASSETS | | | | | |
| Equipment | 118,584 | 29,532 | 46,635 | 48,270 | 243,021 |
| Intangible Assets | 5,053 | 1,995 | 23 | 1,916 | 8,987 |
| Total | 123,637 | 31,527 | 46,658 | 50,186 | 252,008 |
| GRANTS | | | | | |
| From State Sources | | | | 1,471,957 | 1,471,957 |
| From Federal Sources | | | | 6,026,876 | 6,026,876 |
| Total | | | | 7,498,833 | 7,498,833 |
| BENEFITS & CLAIMS | | | | | |
| To Individuals | | | 93,163 | 25,033,583 | 25,126,746 |
| From Federal Sources | | | 1,569 | 92,593 | 94,162 |
| Insurance Payments | | | | 999 | 999 |
| Total | | | 94,732 | 25,127,175 | 25,221,907 |
| TRANSFERS | | | | | |
| Mandatory Transfers | | | 7,000 | | 7,000 |
| Total | | | 7,000 | | 7,000 |
| TOTAL PROGRAM EXPENDITURES | $2,442,918 | $12,422,560 | $ 7,436,080 | $34,842,903 | $57,144,461 |
| GENERAL FUND | | | | | |
| Budgeted | $3,952,289 | $ 7,259,081 | $ 6,962,520 | $21,593,351 | $39,767,241 |
| Actual | 1,568,191 | 7,248,179 | 6,962,519 | 19,332,975 | 35,111,864 |
| Unspent Budget Authority | $2,384,098 | $ 10,902 | $ 1 | $ 2,260,376 | $ 4,655,377 |
| SPECIAL REVENUE FUND | | | | | |
| Budgeted | $ 959,239 | $ 5,324,664 | $ 702,699 | $18,613,735 | $25,600,337 |
| Actual | 874,727 | 5,174,381 | 473,561 | 15,509,928 | 22,032,597 |
| Unspent Budget Authority | $ 84,512 | $ 150,283 | $ 229,138 | $ 3,103,807 | $ 3,567,740 |

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-9.

## 1. Summary of Significant Accounting Policies

**Basis of Accounting**

The department uses the modified accrual basis of accounting, as defined by state accounting policy. In applying the modified accrual basis, the department records:

> Revenues when it receives cash or when receipts are measurable and available to pay current period liabilities.
>
> Expenditures for valid obligations when the department incurs the related liability and it is measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the department received the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

State accounting policy also requires the department to record the cost of employees' annual leave and sick leave when used or paid.

**Basis of Presentation**

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the Statewide Budgeting and Accounting System without adjustment. Accounts are organized in funds according to state law. The department uses the following funds:

**Governmental Funds**

**General Fund** - to account for all financial resources except those required to be accounted for in another fund.

**Special Revenue Fund** - to account for proceeds of specific revenue sources legally restricted to expenditures for specific

**2. Annual and Sick Leave**

Employees at the department accumulate both annual and sick leave. The department pays employees for 100 percent of unused annual and 25 percent of unused sick leave credits upon termination. Accumulated unpaid liabilities for annual and sick leave are not reflected in the accompanying financial schedules. The department absorbs expenditures for termination pay in its annual operational costs. At June 30, 1995, the department had a compensated absence liability of $2,208,303.

**3. Pension Plan**

Employees are covered by the Montana Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS). The department's contribution to PERS was $875,567 in fiscal year 1993-94 and $844,561 in fiscal year 1994-95. The department's contribution to TRS was $60,510 in fiscal year 1993-94 and $57,290 in fiscal year 1994-95.

**4. Fund Balances**

The General Fund is a statewide fund. An agency does not have a separate General Fund since its only authority is to pay obligations from the statewide General Fund within its appropriation limits. Thus, on an agency's schedules, the General Fund beginning and ending fund balance will always be zero.

Using the modified accrual basis of accounting, intergovernmental revenues received as reimbursements are recognized based on the recorded expenditures. As a result, accounting entities in which intergovernmental financial activity is recorded should have a zero fund balance at the end of each fiscal year. The department maintains several federal accounts with intergovernmental financial activity within its Special Revenue Fund. One federal account in the Special Revenue Fund has not been reconciled to zero and reflects a negative fund balance of $920,881 at June 30, 1995. The actual fund balance of the account in the Special Revenue Fund has not been determined.

**5. Other Services**

Other services changed significantly between the two fiscal years in all the department's programs. The increase in the Management Support program resulted from the contract to develop computer programming for the Child Adult Protective System (CAPS) in fiscal year 1994-95. The decline in other services for Regional Administration in fiscal year 1994-95 reflects the transfer of case management responsibility to another agency. The increase in the Juvenile Corrections program's other services can be attributed to commencement of the wilderness corrections approach implemented in fiscal year 1994-95 by a contractor. The increase in fiscal year 1994-95 Program Management other services expenditures reflects department responsibility for providing General Fund match for Medicaid financed residential treatment services.

**6. Equipment**

The department purchased microcomputers and other computer hardware for installation and implementation of the new CAPS application throughout its organization. The department projects CAPS will be in operation at all locations by July 1, 1996.

**7. Refinancing**

The 1993 Legislature provided additional federal appropriation authority for financing existing programs from sources other than the General Fund. The legislation allowed the department to retain General Fund authority released by additional federal funding for existing programs for use in financing prevention programs at the local level. The department also hired financial specialists in each of its five regions and increased eligible client enrollment in federally supported programs.

**8. Fiduciary Activity**

The department maintains individual cash accounts for foster care children. The department receives money on behalf of the children and disburses the money upon request. The money is recorded on the Statewide Budgeting and Accounting System in the Agency Fund. At June 30, 1995, the department had approximately $688,000 in these accounts.

# Agency Response

# DEPARTMENT OF
# PUBLIC HEALTH AND HUMAN SERVICES

MARC RACICOT
GOVERNOR

PETER S. BLOUKE, PhD
DIRECTOR

STATE OF MONTANA

February 2, 1996

Scott A. Seacat
Legislative Auditor
State Capitol
Helena MT 59620

Dear Mr. Seacat:

Enclosed is the Department of Family Services written reply to the audit report for the two state fiscal years ending June 30, 1995. A computer disk with the responses is also included along with two copies of the draft report.

If you have any questions concerning the responses please contact Bill Wells or Eric Merdinger of my staff.

Sincerely,

Michael G Billings for

Peter Blouke, Director

File: A:\legis



"AN EQUAL OPPORTUNITY EMPLOYER"

**Initial Statement applicable to all recommendations:**

**The department will be assigning staff to specifically deal with these audit recommendations.**

Recommendation #1

We recommend PHHS:

A. Establish procedures to ensure timely request of federal funds as allowed by the Cash Management Improvement Act.

Concur:

The department is currently requesting federal funds as allowed by the Cash Management Improvement Act Agreement.

Recommendation #2

We recommend PHHS:

A. Implement a cost allocation plan with consistent application of federal cost principles.

Concur:

A new plan for charging all of PHHS federal and state programs will be implemented by June 30, 1996.

The questioned costs of $58,406 for the duplicate billing of the SWCAP costs to the Title IV-E program were removed from the IV-E quarterly report of December 31, 1995.

The questioned costs of $218 for the Title XIX program and $1,092 for the Title IV-A program which were the result of an error in recording costs on the cost allocation plan were adjusted on the quarterly reports of June 30, 1995. This removed the questioned costs from the two programs.

Recommendation #3

We recommend PHHS:

A. Allocate the salary costs of the Helena Housing Authority social worker to its federal assistance programs.

Concur:

Recommendation #3 (con't)

B. Recover administrative costs from Helena Housing Authority as provided in the agreement.

Concur:

The department will review the provisions of the contract with the Helena Housing Authority and bill them and federal assistance programs according to the terms of the contract.

Recommendation #4

We recommend PHHS:

A. Develop procedures to document valid charges to restricted appropriations.

Concur:

We will make the appropriate accounting entities to reflect the correct appropriation utilization.

B. Revert $40,571 to the General Fund.

Concur:

The department will exhaust all Department of Family Services' resources to fund the reversion. If these resources are insufficient it may be necessary to seek supplemental appropriation authority.

Recommendation #5

We recommend PHHS:

A. Review transaction support to ensure expenditures are allowable to the appropriations charged.

Concur:

The department will review of expenditures and ensure only allowable charges are made to appropriations.

Recommendation #5 (con't)

B. Revert $234,965 to the General Fund

Concur:

The department will exhaust all Department of Family Services' resources to fund the reversion. If these resources are insufficient it may be necessary to seek supplemental appropriation authority.

Recommendation #6

We recommend PHHS:

A. Charge family services expenditures to the proper fund in compliance with state law.

Concur:

For fiscal year 1996, the department will use General Fund appropriation authority for the refinancing project expenditures.

B. Seek supplemental appropriation authority when such authority appear to carry out the department's legally mandated mission.

Concur:

The department will seek supplemental appropriation authority when required.

C. Reimburse the federal Special Revenue Fund $1.8 million.

Partially Concur:

The department is implementing a new accounting structure with separate accounting entities for each CFDA activity and a single Cost Allocation plan for the new agency as part of reorganization. The federal Special Revenue fund (03203) will be reconciled and this issue will be resolved. If appropriate the department will exhaust all Department of Family Services' resources to fund this resolution. If these resources are insufficient it may be necessary to seek supplemental appropriation authority. The department will be in constant communication with the Auditor's office during this process and will report back to the Audit Committee with our findings.

Recommendation #7

We recommend PHHS:

A. Implement procedures to facilitate projecting and tracking expenditures.

Concur:

B. Transfer $24,921 from the federal Special Revenue Fund to the General Fund.

Concur:

The transfer of $24,921 from the federal Special Revenue Fund to the General Fund will be completed by February 29, 1996.

Recommendation #8

We recommendation PHHS:

A. Limit variances from approved operating budgets as required by law.

Concur:

Operating budgets have been fully allocated on SBAS and will be reviewed regularly for possible amendments to the current approved budget.

Recommendation #9

We recommend PHHS:

A. Ensure the federal Special Revenue Fund account is reconciled and balances are correct at the end of the fiscal year.

Concur:

With the reorganization of programs within PHHS new accounting entities will be utilized to track federal programs. In this process, the current accounting entity will be reconciled and closed out by June 30, 1997.

Recommendation #9 (con't)

B. Review expenditure and revenue accrual procedures for consistency and accuracy.

Concur:

New procedures will be implemented for year end accruing of expenditures and revenues to ensure that they match at fiscal year end.

Recommendation #10

We recommend PHHS:

A. Transfer $390,708 from the Special Revenue Fund to the General Fund.

Concur:

The department will exhaust all Department of Family Services' resources to fund this entry. If these resources are insufficient it may be necessary to seek supplemental appropriation authority.

B. Record expenditures and revenue for third party foster care payments in accordance with state law and policy.

Concur:

The department will record third party reimbursements according to state law and policy.

Recommendation #11

We recommend PHHS:

A. Retain Support for expenditure transactions as required by state law.

Concur:

Support will be retained for all expenditure transaction.

B. Transfer $96,257 to the General Fund from the federal Special Revenue Fund.

Concur:

The transfer of $96,257 to the general fund will be completed by February 29, 1996.

Recommendation #12

We recommend PHHS ensure:

A. Federal assistance is matched with state funds as required, and

Concur:

B. Expenditures are charged to the correct federal program.

Concur:

Recommendation #13

We recommend PHHS:

A. Facilitate communication between accounting and data processing employees necessary to properly record equipment purchases.

Concur:

Equipment purchases will be properly accounted for on SBAS and The Property Management System (PAMS).

Recommendation #14

We recommend PHHS:

A. Record bad debt expense and an allowance for doubtful accounts on the state's accounting records.

Concur:

B. Initiate collection of unpaid foster care charges to counties through offset of other payments by the Department of Administration.

Concur:

We have been working with counties that have had concerns regarding the amounts being billed to them by the department for foster care and administrative cost reimbursements. To date we are not aware of any county that has refused to pay the department for these services. If a county would refuse payment, the department would record the bad debt expense and initiate the collection process if necessary.

Recommendation #15

We recommend PHHS:

A. Improve consistency and accuracy of federal reporting for family services programs.

Concur:

The development of the new cost allocation process for PHHS will greatly enhance the accuracy of federal reporting by more clearly identifying expenditures by federal program. The questioned costs will be resolved.

Recommendation #16

We recommend PHHS:

A. Implement a control system to ensure Title IV-E foster care payments are made on behalf of eligible clients in accordance with federal regulations.

Concur:

The implementation of the CAPS system will greatly enhance the social workers abilities to determine correctly the initial client funding eligibility and any subsequent redetermination required by federal regulations. All counties are scheduled to be converted to the CAPS system by June 30, 1996.

The cases involved with the questioned costs to the Title IV-E program of $7,211 for FY 1993-1994 and $3,964 for FY 1994-1995 will be reviewed and appropriate adjustments will be made on the IV-E quarterly report of March 31, 1996.

Recommendation #17

We recommend PHHS:

A. Establish procedures to ensure the funding source charged is correct based on a child's eligibility.

Concur:

As noted in the audit, the department took the initiative to hire financial specialists to review files for correct eligibility. This effort was very successful as the department recovered over $565,000 of additional federal funds for fiscal years 1992 through 1995. The implementation of CAPS will greatly enhance the financial specialists efforts in reviewing client eligibility.

Recommendation #18

We recommend PHHS:

A. Record foster care adjustments on SBAS.

Concur:

The adjustments were made on SBAS and the proper federal programs were billed on quarterly reports for the period ending June 30, 1995.

B. Recover $565,682 of federal funds for eligible foster care services.

Concur:

The $565,682 has been recovered as part of the above adjustments.

Recommendation #19

We recommend PHHS:

A. Reconcile SBAS and its foster care database on a timely basis to ensure financial information on the state's accounting records is accurate and complete.

Concur:

The reconciliation will be complete by June 30, 1996.

Recommendation #20

We recommend PHHS:

A. Record warrant cancellations and re-issuance on the foster care database.

Concur:

This recommendation will be implemented with the CAPS and AWACS systems which will be operational by July 1996.

Recommendation #21

We recommend PHHS:

A. Establish procedures to prevent payment to residential treatment facilities by both Medicaid and foster care for the same service.

Concur:

The Division of Child and Family Services will work with the Division of Addictive and Mental Disorders to implement a procedure to identify and prevent duplicate payments to residential treatment programs.

Recommendation #22

We recommend PHHS:

A. Implement procedures to pay foster care providers in accordance with state law.

Concur:

The CAPS system will solve most payment delay problems by implementing the payment authorization and approval process on line with the field staff and eliminating the need for social workers, foster parents, and most other service providers to mail the authorizations and invoices to Helena for processing. Some services will still be paid from invoices submitted from the providers, and a problem tracking system will be implemented to reduce the delay involved in processing these payments.

B. Establish procedures to track foster care charges in dispute.

Concur:

Recommendation #23

We recommend PHHS:

A. Transfer foster care payments to the General Fund when they are removed from the children's account.

Concur:

The SBAS adjustment for the transfer of foster care charges from the client trust accounts will be done as soon as the information is available from the trust account system.

Recommendation #24

We recommend PHHS:

A. Implement an effective reconciliation of its trust account subsystem to SBAS.

Concur:

Recommendation #25

We recommend PHHS:

A. Transfer abandoned property to the Department of Revenue in compliance with state law.

Concur:

The department will transfer all old children's trust account balances to the Department of Revenue in accordance with state law.

Recommendation #26

We recommend PHHS:

A. Implement effective procedures to notify the county attorney of known or suspected cases of neglect reported to the department.

Concur:

The department has developed policy regarding notification of the appropriate county attorney of all known or suspected abuse or neglect reported. The department will insure all field offices comply with the statute.